

DEEP RIVER TOWNSHIP  
ARENAC COUNTY  
STATE OF MICHIGAN

FINANCIAL REPORT  
WITH SUPPLEMENTAL INFORMATION  
YEARS ENDED JUNE 30, 2012 AND 2011

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# ***Quast, Janke and Company, P.C.***

*Certified Public Accountants*

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## **REPORT LETTER**

January 5, 2013

To The Township Board  
Deep River Township  
Arenac County  
Sterling, Michigan 48659

We have audited the accompanying financial statements of the Government Activities, each major fund, and the aggregate remaining fund information of the Deep River Township as of and for the years ended June 30, 2012 and 2011, which collectively comprise the Township's financial statements as listed in the table of contents. These financial statements are the responsibility of the Deep River Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

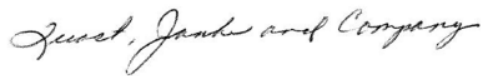
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Government Activities, each major fund, and aggregate remaining fund information of the Deep River Township as of June 30, 2012 and 2011, and the respective changes in financial position for the year then ended in conformity with United States generally accepted accounting principles.

The management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 21 through 23 are not a required part of the basic financial statements but are supplemental information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To The Township Board  
Deep River Township  
January 5, 2013  
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Deep River Township's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and are not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

QUAST, JANKE AND COMPANY

A handwritten signature in cursive script that reads "Quast, Janke and Company".

Certified Public Accountants, P.C.

***Quast, Janke and Company, P.C.***  
*Certified Public Accountants*

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENT PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

January 5, 2013

Township Board  
Township of Deep River  
P.O. Box 440  
Sterling, Michigan 48659

We have audited the financial statements of the governmental activities and the aggregate remaining fund information of the Township of Deep River as of and for the year ended June 30, 2012, which collectively comprise the Township of Deep River's basic financial statements and have issued our report thereon dated January 5, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Township of Deep River's internal Control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township of Deep River's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented,

or detected and corrected on a timely basis. We consider the deficiencies described below to be significant deficiencies:

1. Lack of Segregation of Duties – The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board has considered the costs of implementing them and weighed those costs against the benefits to be derived from their implementation and determined that it is in the best interest of the government not to add additional staff.
2. Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements. All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interest of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

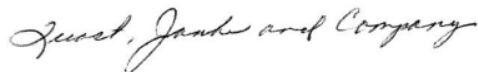
### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Township of Deep River's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Township of Deep River's response to the findings identified in our audit is described above. We did not audit the Township's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



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Certified Public Accountants, P.C.

## **Deep River Township Management's Discussion and Analysis**

This section of Deep River Township's Annual Financial Report presents our discussion and analysis of the Township's financial performance during the year ended June 30, 2012. Please read it in conjunction with the Township's financial statements, which immediately follows this section.

### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Deep River Township financially as a whole. The government-wide Financial Statements provide information about the activities of Deep River Township, presenting both an aggregate view of the Township's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds – the General Fund, Road Fund, Cemetery Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the Township acts solely as an agent.

Management's Discussion and Analysis (MD &A)  
(Required Supplemental Information)

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for the General Fund and Major Special Revenue Funds

Other Supplemental Information

Reporting the Township as a Whole – Government-Wide Financial Statements

One of the most important questions asked about the Township is, "As a whole, what is the Township's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Township's financial statements, report information on the Township as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.



## Deep River Township

### Management's Discussion and Analysis

These two statements report the Township's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the Township's financial health or financial position. Over time, increases or decreases in the Township's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Township's operating results. However, the Township's goal is to provide services to our residents, not to generate profits as commercial entities do.

The statement of net assets and statement of activities report the governmental activities for the Township, which encompass all of the Township's services, including legislative, general government, public safety, public works and culture and recreation. Property taxes, special assessments, and unrestricted State shared revenue finance most of these activities.

#### Reporting the Township's Most Significant Funds – Fund Financial Statements

The Township's fund financial statements provide detailed information about the most significant funds – not the Township as a whole. Some funds are required to be established by State law. However, the Township establishes many other funds to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the Township use the following accounting approach:

**Governmental funds** – All of the Township's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Township and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

#### The Township as a Whole

Recall that the statement of net assets provides the perspective of the Township as a whole. Table 1 provides a summary of the Township's net assets as of June 30, 2012 and 2011:

	Governmental Activities	
	June 30, 2012	June 30, 2011
<b>Assets:</b>		
Current and other assets	\$ 509,608	\$ 480,092
Capital assets – Net of accumulated depreciation	<u>280,838</u>	<u>267,363</u>
Total assets	790,446	747,455
<b>Liabilities:</b>		
Current Liabilities	<u>34,942</u>	<u>26,670</u>
<b>Net Assets:</b>		
Invested in property and equipment	280,838	267,363
Restricted	112,126	66,716
Unrestricted	<u>362,540</u>	<u>386,706</u>
Total net assets	<u>\$ 755,504</u>	<u>\$ 720,785</u>

## Deep River Township

### Management's Discussion and Analysis

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Township's governmental activities is discussed below. The Township's net assets were \$755,504 at June 30, 2012. Capital assets reflect the original cost, less depreciation of the Township's capital assets. The net assets, \$68,733, of the fund (Garbage) funded by special assessments is restricted. The remaining amount of net assets \$362,540 was unrestricted.

The \$755,504 in restricted and unrestricted net assets of governmental activities represents the accumulated results of all past years operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Township as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years 2012 and 2011.

TABLE 2:

	<u>Governmental Activities</u>	
	<u>June 30, 2012</u>	<u>June 30, 2011</u>
<b>Revenue:</b>		
Program revenue:		
Charges for services	\$ 6,010	\$ 10,522
Grants, contributions and other	57,075	1,750
General revenue:		
Property taxes	73,065	69,150
Special assessments	123,360	123,480
State shared revenue	130,876	94,065
Other	<u>9,856</u>	<u>29,182</u>
Total revenue	400,242	328,149
 <b>Function/Program Expenses:</b>		
Legislative	37,364	30,779
General Government	97,850	106,478
Public Safety	26,270	12,193
Public Works	186,821	148,176
Cultural and Recreation	836	1,794
Other	4,633	4,783
Depreciation	<u>11,749</u>	<u>10,454</u>
Total expenses	<u>365,523</u>	<u>314,657</u>
 <b>Increase in net Assets</b>	 <u>\$ 34,719</u>	 <u>\$ 13,492</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$365,523. Certain activities were partially funded from those who benefitted from the program or by other governments and organizations that subsidized certain programs with grants and contributions. We paid for the remaining "public benefit" portion of our governmental activities with \$73,065 in taxes, \$123,360 in special assessments, \$130,876 in State shared revenue, and with our other revenues, such as interest and other.

The Township experienced an increase in net assets of \$34,719. The increase in net assets differs from the change in fund balance and reconciliation appears on page 11.

As discussed above, the net cost shows the financial burden that was placed on the State and the Township's taxpayers by each of these functions. Since property taxes for operations and State shared revenues constitute the majority of Township operating revenue sources, the Board of Trustees must annually evaluate the needs of the Township and balance those needs with State-prescribed available unrestricted resources.

## **Deep River Township**

### **Management's Discussion and Analysis**

#### **The Township's Funds**

As we noted earlier, the Township uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Township is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Township's overall financial health.

As the Township completed this year, the governmental funds reported a combined fund balance of \$474,666, which is an increase of \$21,244 from last year. The General Fund, our principal operating fund, the balance increased \$19,227. Overall, actual General Fund revenues were within 107% of budgeted amounts, and expenditures were within 101.5% of budgeted amounts.

The Garbage Fund fund balance increased \$2,017.

#### **Budgetary Highlights**

Over the course of the year, the Township revises its budget as it attempts to deal with changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Township's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the original budgets were as follows:

All Budgeted Funds -

There were no budget amendments.

There were no significant variances between the final budget and actual costs.

#### **Capital Asset and Debt Administration**

##### **Capital Assets**

At June 30, 2012, the Township had \$636,085 invested in a broad range of capital assets, including land, buildings, vehicles, and equipment. This amount represents a net increase (including additions and disposals) of \$25,224.

	<u>2012</u>	<u>2011</u>
Land and buildings	\$ 137,709	\$ 112,485
Buildings and improvements	236,835	236,835
Vehicles	162,892	162,892
Equipment	<u>98,649</u>	<u>98,649</u>
Total capital assets	636,085	610,861
Less accumulated depreciation	<u>355,247</u>	<u>343,498</u>
	<u>\$ 280,838</u>	<u>\$ 267,363</u>

This year's additions of \$25,224 consisted the paving of a "Nature Trail" and playground construction.

## **Deep River Township**

### **Management's Discussion and Analysis**

#### **Economic Factors and Next Year's Budgets and Rates**

Our elected officials consider many factors when setting the Township's 2013 fiscal year budget. One of the most important factors affecting the budget is the State of Michigan's economy and cuts may be forthcoming in 2013.

#### **Contacting the Township's Financial Management**

This financial report is designed to provide the Township's citizens, taxpayers, customers, and investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Deep River Township, 511 State St, Sterling, MI 48659.

DEEP RIVER TOWNSHIP  
Arenac County, Michigan

STATEMENT OF NET ASSETS  
June 30, 2012 and 2011

	June 30, 2012	2011
ASSETS:		
Cash	\$ 434,777	\$ 469,290
Other receivables	1,665	914
Due from State	18,853	0
Due from other funds	8,904	8,849
Prepaid expense	45,409	1,039
Capital assets	636,085	610,861
Accumulated depreciation	(355,247)	(343,498)
Total Assets	790,446	747,455
LIABILITIES:		
Accounts payable and other liabilities	26,930	19,976
Other	8,012	6,694
Total Liabilities	34,942	26,670
NET ASSETS:		
Investment in capital assets net of related debt (None)	280,838	267,363
Restricted	112,126	66,716
Unrestricted	362,540	386,706
Total Net Assets	\$ 755,504	\$ 720,785

The accompanying notes are an integral part of the financial statements.

DEEP RIVER TOWNSHIP  
Arenac County, Michigan

STATEMENT OF ACTIVITIES  
Years Ended June 30, 2012 and 2011

	Program Revenues			Governmental Activities Net (Expenses) Revenues and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants/ Contributions	Totals Years Ended June 30, 2012	2011
GOVERNMENTAL ACTIVITIES:					
Legislative	\$ 37,364	\$ 0	\$ 0	\$ (37,364)	\$ (30,779)
General Government	97,850	6,010	1,750	(90,090)	(81,725)
Public Safety	26,270	0	0	(26,270)	(12,193)
Public Works	186,821	0	0	(186,821)	(148,176)
Culture and Recreation	836	0	55,325	54,489	(1,794)
Other	4,633	0	0	(4,633)	(4,783)
Depreciation	11,749	0	0	(11,749)	(10,454)
Total Governmental Activities	\$ <u>365,523</u>	\$ <u>6,010</u>	\$ <u>57,075</u>	(302,438)	(289,904)
GENERAL PURPOSE REVENUES:					
Property taxes				73,065	69,150
Special Assessment - Garbage				123,360	123,480
State shared revenues				130,876	94,065
Investment earnings				6,049	5,740
Other				3,807	10,961
Total General Purpose Revenues				<u>337,157</u>	<u>303,396</u>
Change in Net Assets				34,719	13,492
Net Assets - Beginning of Year				<u>720,785</u>	<u>707,293</u>
Net Assets - End of Year				\$ <u>755,504</u>	\$ <u>720,785</u>

The accompanying notes are an integral part of the financial statements.

DEEP RIVER TOWNSHIP  
Arenac County, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET  
June 30, 2012 and 2011

	<u>GENERAL</u>	<u>GARBAGE</u>	<u>Total June 30,</u>	<u>2012</u>	<u>2011</u>
ASSETS:					
Cash in bank	\$ 355,823	\$ 78,954	\$ 434,777	\$ 469,289	
Accounts receivable	1,665	0	1,665	914	
Due from State	18,853	0	18,853	0	
Due from other Funds	8,904	0	8,904	8,926	
Prepaid expense	45,409	0	45,409	1,039	
	<u>45,409</u>	<u>0</u>	<u>45,409</u>	<u>1,039</u>	
TOTAL ASSETS	\$ <u>430,654</u>	\$ <u>78,954</u>	\$ <u>509,608</u>	\$ <u>480,168</u>	
LIABILITIES:					
Accounts payable	\$ 16,709	\$ 10,221	\$ 26,930	\$ 19,978	
Accrued salaries & wages	5,648	0	5,648	4,303	
Payroll taxes	1,724	0	1,724	1,791	
Due to other funds	0	0	0	77	
Other liabilities	640	0	640	600	
	<u>640</u>	<u>0</u>	<u>640</u>	<u>600</u>	
TOTAL LIABILITIES	24,721	10,221	34,942	26,749	
FUND EQUITY:					
Nonspendable	45,409	0	45,409	66,716	
Restricted	0	68,733	68,733		
Unassigned	405,933	0	405,933	386,706	
	<u>405,933</u>	<u>0</u>	<u>405,933</u>	<u>386,706</u>	
TOTAL FUND EQUITY	451,342	0	451,342	453,422	
	<u>451,342</u>	<u>0</u>	<u>451,342</u>	<u>453,422</u>	
TOTAL LIABILITIES AND FUND EQUITY	\$ <u>476,063</u>	\$ <u>10,221</u>	\$ <u>486,284</u>	\$ <u>480,171</u>	

The accompanying notes are an integral part of the financial statements.

DEEP RIVER TOWNSHIP  
Arenac County, Michigan

GOVERNMENTAL FUNDS  
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS  
June 30, 2012

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$	474,666
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Amounts reported for governmental activities in the statement  
of net assets are different because -

Capital assets used in governmental activities are not financial  
resources and are not reported in the funds:

Capital assets at cost	636,085
Accumulated depreciation	<u>(355,247)</u>

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	\$	<u>755,504</u>
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The accompanying notes are an integral part of the financial statements.



DEEP RIVER TOWNSHIP  
Arenac County, Michigan

GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
Years Ended June 30, 2012 and 2011

	GENERAL	GARBAGE	Totals Years Ended June 30,	
			2012	2011
REVENUES:			\$	\$
Taxes	\$ 73,065	\$ 0	\$ 73,065	69,150
Special Assessments	0	123,360	123,360	123,480
Licenses & Permits	2,967	0	2,967	5,040
State Grants	130,876	0	130,876	94,065
Contributions from Local Units	1,750	0	1,750	1,750
Charges for Services	6,010	0	6,010	10,522
Interest and Rentals	6,049	0	6,049	5,740
Chippewa Tribal grants	5,064	0	5,064	12,481
Donations	50,261	0	50,261	0
Other Revenue	840	0	840	5,922
Total Revenues	276,882	123,360	400,242	328,150
EXPENDITURES:				
Legislative	37,364	0	37,364	30,779
General Government	102,484	0	102,484	116,678
Public Safety	21,134	0	21,134	12,192
Public Works	65,477	121,343	186,820	148,176
Cultural and Recreation	26,059	0	26,059	22,005
Payroll Taxes	5,137	0	5,137	4,783
Total Expenditures	257,655	121,343	378,998	334,613
EXCESS OF REVENUES OVER EXPENDITURES	19,227	2,017	21,244	(6,463)
FUND BALANCE - Beginning of Year	386,706	66,716	453,422	459,885
FUND BALANCE - End of Year	\$ 405,933	\$ 68,733	\$ 474,666	\$ 453,422

The accompanying notes are an integral part of the financial statements.

DEEP RIVER TOWNSHIP  
Arenac County, Michigan

GOVERNMENTAL FUNDS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
Year Ended June 30, 2012

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	21,244
Amounts reported for governmental activities in the statement of activities are different because -		
Governmental funds report capital outlays as expenditures in the statement of activities, these costs are allocated over their estimated lives as depreciation:		
Depreciation expense		(11,749)
Capital outlay		<u>25,224</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>34,719</u></u>

The accompanying notes are an integral part of the financial statements.

DEEP RIVER TOWNSHIP  
Arenac County, Michigan

STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
June 30, 2012 and 2011

	Trust & Agency	Current Tax Collections	2012	Totals 2011
ASSETS:				
Cash in bank	\$ <u>7,508</u>	\$ <u>1,396</u>	\$ <u>8,904</u>	\$ <u>8,890</u>
LIABILITIES:				
Due to General Fund	\$ 7,508	\$ 1,396	\$ 8,904	\$ 8,850
Due to others	<u>0</u>	<u>0</u>	<u>0</u>	<u>40</u>
	\$ <u>7,508</u>	\$ <u>1,396</u>	\$ <u>8,904</u>	\$ <u>8,890</u>

The accompanying notes are an integral part of the financial statements.

DEEP RIVER TOWNSHIP  
ARENAC COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Deep River Township is located in Arenac County and is operated under an elected Board of Trustees (5 members) and provides services to its residents in many areas. The financial statements of the Township have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. REPORTING ENTITY:

In evaluating how to define the Township for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB No. 14. The basic - but not the only - criteria for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of the ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Township is able to exercise oversight responsibilities.

Government-wide and Fund Financial Statements

The Government-wide Financial Statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identified with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Statements - The Government-wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

DEEP RIVER TOWNSHIP  
ARENAC COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes taxes and unrestricted State aid.

Fund-based Statements - Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within approximately 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Fiduciary Fund statements are also reported using the economic resources measurement focus and the modified accrual basis of accounting.

The Township reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

Garbage Fund - The Garbage Fund is used to record special assessments used to provide garbage collection in the Township.

Assets, Liabilities, and Net Assets or Equity

Deposits - Cash and cash equivalents include cash on hand and demand deposits.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds". Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds".

Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1, of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County tax rolls.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both entity-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized.

DEEP RIVER TOWNSHIP  
ARENAC COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Buildings, equipment, land improvements and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Vehicles	5 years
Office furnishings	5-20 years
Other equipment	5-20 years

**Fund Equity** – Beginning with the year ended March 31, 2012 the Township implemented GASB statements 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. The Statement provided more clearly defined fund balance categories to make the nature and extent of the constraints placed upon a government’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which the resources can be used:

- Non-spendable – amounts that are not in a spendable form such as inventory.
- Restricted – amounts constrained to specific purposes by their providers, through constitutional provisions, or by enabling legislation.
- Committed – amounts constrained to specific purposes by a government itself.
- Assigned – amounts a government intends to use for a specific purpose.
- Unassigned – amounts that are available for any purpose, positive amounts are only reported in general fund.

Compensated Absences - There is no liability for compensated absences reported in the government-wide statements since no township employees are provided with sick or vacation pay benefits.

Long term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. There are no long-term liabilities.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Township to have its budget in place by April 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits entities to amend their budgets during the year. There were no significant amendments during the year.

DEEP RIVER TOWNSHIP  
ARENAC COUNTY, MICHIGAN

NOTES TO FINANCIAL1  
June 30, 2012

NOTE 3. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS:

Excess of Expenditures Over Appropriations in Budgeted Funds -

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Garbage Fund –			
Assessor	\$ 20,300	\$ 21,363	\$ 1,063
Highway, Streets & Bridges	36,380	48,749	12,369
Street Lighting	1,950	1,968	18
Cultural and recreation	13,140	26,059	12,919
Garbage –			
Public Works	121,080	121,343	263

Fund Deficits - The Township had no accumulated fund balance deficits.

Deposits of the Township are carried at cost and maintained at Citizens Bank, Independent Bank and Chemical Bank, federally insured banks.

State statutes and the Township's investment policy authorize the Township to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the Township is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Township's deposits are in accordance with statutory authority.

At year end, the Township's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash	<u>\$ 434,777</u>	<u>\$ 8,904</u>	<u>\$ 443,681</u>

The Government Accounting Standards Board Statement No. 3 requires the amount of total bank balances to be classified in one of three categories of credit risk. These categories are:

- (1) Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- (2) Collateralized with securities held by the pledging financial institution's trust department or agency in the entity's name.
- (3) Uncollateralized (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent by not in the entity's name). Bank deposits including certificates of deposit:

	<u>Primary Government</u>
Category 1.	\$ 267,618
Category 2.	-
Category 3.	176,063
Total Bank Balances	<u>\$ 443,681</u>
Carrying Amount	<u>\$ 443,681</u>

DEEP RIVER TOWNSHIP  
ARENAC COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

NOTE 4 CAPITAL ASSETS:

Capital asset activity of the Township's governmental activities was as follows:

	Balance <u>July 1, 2011</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2012</u>
Land and improvements	\$ 112,485	\$ 25,224	\$ -	\$ 137,709
Buildings and improvements	236,835	-	-	236,835
Vehicles	162,892	-	-	162,892
Equipment	<u>98,649</u>	<u>-</u>	<u>-</u>	<u>98,649</u>
Total Capital Assets	610,861	25,224	-	636,085
Accumulated Depreciation				
Land and improvements	15,131	3,489	-	18,620
Buildings and improvements	85,093	5,052	-	90,145
Vehicles	162,892	-	-	162,892
Equipment	<u>80,382</u>	<u>3,208</u>	<u>-</u>	<u>83,590</u>
Total Accumulated Depreciation	<u>343,498</u>	<u>11,749</u>	<u>-</u>	<u>355,247</u>
Net Capital Assets	<u>\$ 267,363</u>	<u>\$ 13,475</u>	<u>\$ -</u>	<u>\$ 280,838</u>

Depreciation expense was charged to activities of the Township as follows:

Governmental activities	<u>\$ 11,749</u>
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NOTE 5. RISK MANAGEMENT:

The Township is exposed to various risks of loss related to property loss, errors, omissions, employee injuries, and workman's compensation benefits.

The Township has purchased commercial insurance for general liability, errors and omissions, physical damage for equipment, buildings and contents and workers compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 years. There was no reduction in coverage obtained through commercial insurance during the past year.

NOTE 6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 1,396	Current Tax Collections	\$ 1,396
General Fund	<u>7,508</u>	Trust and Agency	<u>7,508</u>
	<u>\$ 8,904</u>		<u>\$ 8,904</u>



DEEP RIVER TOWNSHIP  
ARENAC County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

NOTE 7. PENSION PLAN:

Deep River Township has a defined contribution plan for employees other than elected officials or part-time workers, through Manulife. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the amount earned on investments of these contributions, and forfeitures of other participant's benefits that may be allocated to such participant's account.

The Township's pension plan agreement specified which Township positions are covered by the plan. Contributions made by an employee and the Township vest immediately. An employee that leaves the employment of the Township is entitled to his or her account balance consisting of the employee and Township contributions, as well as earnings in the account. Effective January 1, 2008, the Township contribution was reduced to 1% of annual compensation for elected officials and 7.5% for other covered employees.

## REQUIRED SUPPLEMENTAL INFORMATION

DEEP RIVER TOWNSHIP  
Arenac County, Michigan

BUDGET COMPARISON SCHEDULE - GENERAL FUND  
Year Ended June 30, 2012

	Original Budget	Final Amended Budget	Actual
REVENUES:			
Taxes	\$ 69,700	\$ 69,700	\$ 73,065
Licenses & Permits	2,000	2,000	2,967
State Grants	105,000	105,000	130,876
Contributions from Local Units	1,750	1,750	1,750
Charges for Services	20,250	20,250	6,010
Interest and Rentals	4,860	4,860	6,049
Other Revenues	55,390	55,390	56,165
	<hr/>	<hr/>	<hr/>
Total Revenues	258,950	258,950	276,882
EXPENDITURES:			
Legislative	44,200	44,200	37,364
General Government	121,920	121,920	97,850
Public Safety	26,600	26,600	26,270
Public Works	55,730	55,730	65,478
Cultural and Recreation	13,140	13,140	26,059
Other	0	0	4,633
	<hr/>	<hr/>	<hr/>
Total Expenditures	261,590	261,590	257,654
NET CHANGE IN FUND BALANCE	(2,640)	(2,640)	19,228
FUND BALANCE - BEGINNING OF YEAR	<hr/> 386,705	<hr/> 386,705	<hr/> 386,705
FUND BALANCE - END OF YEAR	\$ <u>384,065</u>	\$ <u>384,065</u>	\$ <u>405,933</u>

DEEP RIVER TOWNSHIP  
Arenac County, Michigan

BUDGET COMPARISON SCHEDULE - GARBAGE FUND  
Year Ended June 30, 2012

	Original Budget	Final Amended Budget	Actual
REVENUES:			
Special Assessments	\$ 123,720	\$ 123,720	\$ 123,360
EXPENDITURES:			
Public Works	121,080	121,080	121,343
NET CHANGE IN FUND BALANCE	2,640	2,640	2,017
FUND BALANCE - BEGINNING OF YEAR	66,716	66,716	66,716
FUND BALANCE - END OF YEAR	\$ 69,356	\$ 69,356	\$ 68,733

## OTHER SUPPLEMENTAL INFORMATION

DEEP RIVER TOWNSHIP  
Arenac County, Michigan

GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
Years Ended June 30, 2012 and 2011

	Year Ended June 30,	
	2012	2011
REVENUES:		
Taxes -		
Current tax levy	\$ 45,942	\$ 46,019
Delinquent taxes	975	90
Swamp & Forest	3,631	1,210
Administration fees	22,517	21,831
Total Taxes	73,065	69,150
Licenses & Permits -		
Building Permits	2,967	5,040
State Grants -		
Sales tax	130,876	94,065
Contributions from Local Units -		
Adams Township	1,750	1,750
Charges for Services -		
Cemetery services	5,985	10,522
Other	25	0
Total Charges for Services	6,010	10,522
Interest and Rentals -		
Interest earned	1,498	2,228
Oil royalties	3,271	2,032
Rents	1,280	1,480
Total Interest and Rentals	6,049	5,740
Other Revenue -		
Chippewa Tribal grants	5,064	12,481
Donations	50,261	1,372
Other	840	4,550
Total Other	56,165	18,403
Total Revenues	276,882	204,670
EXPENDITURES	257,655	213,323
NET CHANGE IN FUND BALANCE	19,227	(8,653)
FUND BALANCE - Beginning of Year	386,706	395,359
FUND BALANCE - End of Year	\$ 405,933	\$ 386,706

DEEP RIVER TOWNSHIP  
Arenac County, Michigan

GENERAL FUND  
 DETAIL OF EXPENDITURES  
Years Ended June 30, 2012 and 2011

	Year Ended June 30,	
	2012	2011
LEGISLATIVE:		
Township Board -		
Trustees' salaries	\$ 7,800	\$ 7,394
Legal & professional	4,289	0
Membership dues	2,373	2,341
Printing and publishing	447	1,329
Retirement	1,591	316
Seminars and conventions	7,810	4,182
Travel	2,908	2,374
Supplies and other costs	4,474	4,852
Insurance	5,672	4,866
Capital outlay	0	3,125
Total Legislative	37,364	30,779
GENERAL GOVERNMENT:		
Supervisor -		
Salary	7,800	7,800
Supplies and other costs	138	258
Total Supervisor	7,938	8,058
Elections -		
Wages	716	1,423
Supplies and other costs	267	1,575
Total Elections	983	2,998
Assessor -		
Contracted services	20,128	15,576
Supplies and other costs	1,235	5,336
Capital outlay	0	6,012
Total Assessor	21,363	26,924
Clerk -		
Salary	12,000	12,000
Deputy Clerk	630	594
Supplies and other costs	0	324
Total Clerk	12,630	12,918
Board of Review -		
Salaries	1,845	1,416

DEEP RIVER TOWNSHIP  
Arenac County, Michigan

GENERAL FUND  
DETAIL OF EXPENDITURES (Continued)  
Years Ended June 30, 2012 and 2011

	Year Ended June 30,	
	2012	2011
EXPENDITURES (CONT.):		
GENERAL GOVERNMENT (CONT.):		
Treasurer -		
Salary	\$ 14,847	\$ 14,848
Deputy Treasurer	2,232	2,196
Supplies and other costs	7,212	7,954
Total Treasurer	24,291	24,998
Township Hall -		
Utilities	5,811	7,242
Telephone	962	1,953
Repairs and maintenance	8,083	6,044
Supplies and other costs	194	910
Capital outlay	0	2,392
Total Township Hall	15,050	18,541
Cemetery -		
Wages	10,792	12,950
Utilities	219	265
Repairs and maintenance	4,633	6,882
Supplies and other costs	2,740	728
Total Cemetery	18,384	20,825
Total General Government	102,484	116,678
PUBLIC SAFETY:		
Building Inspector -		
Salary	2,584	4,686
Supplies and other costs	615	1,411
Total Building Inspector	3,199	6,097



DEEP RIVER TOWNSHIP  
Arenac County, Michigan

GENERAL FUND  
DETAIL OF EXPENDITURES (Continued)  
Years Ended June 30, 2012 and 2011

	Year Ended June 30,	
	2012	2011
EXPENDITURES (CONT.):		
Zoning & Planning		
Salaries	\$ 3,860	5,810
Contract services	14,000	0
Supplies and other costs	75	285
Total Zoning & Planning	17,935	6,095
Total Public Safety	21,134	12,192
PUBLIC WORKS:		
Highway, Streets and Bridges -		
Routine maintenance	48,749	9,941
Street Lighting -		
Utilities	1,968	1,788
Drain-at-large	14,760	15,157
Total Public Works	65,477	26,886
CULTURAL AND RECREATIONAL:		
Park -		
Supplies and other costs	427	507
Repairs & maintenance	408	1,287
Capital outlay	25,224	20,211
Total Cultural and Recreational	26,059	22,005
OTHER:		
Payroll taxes	5,137	4,783
TOTAL EXPENDITURES	\$ 257,655	\$ 213,323